

Internal Revenue Service  
Director, Exempt Organizations

Department of the Treasury  
P.O. Box 2508  
Cincinnati, Ohio 45201

Date: OCT 22 2001

Employer Identification Number:  
[REDACTED]

Person to Contact - ID#:  
[REDACTED]

Contact Telephone Numbers:  
[REDACTED] Phone  
[REDACTED] FAX

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under the provisions of section 501(c)(3) of the Internal Revenue Code of 1986 and its applicable Income Tax Regulations.

You were incorporated on [REDACTED] in [REDACTED]. Your purpose as specified in your Articles of Incorporation is "to carry on any lawful non-profit business of enterprise of charitable, religious, educational, or scientific, purposes, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under section of any future Federal Tax Code, specifically a public benefit to the community". Your activities as described on page 2 of your application are, "To assist consumers to get financially healthy and show them how to remain financially healthy (debt free) in the future".

We wrote to you on [REDACTED], [REDACTED], and [REDACTED]. Each letter requested additional information concerning, among other things, your activities. Your responses did not fully address the questions and did not adequately describe your activities. The following examples illustrate why the data submitted was insufficient.

1. Activities

Our letter dated [REDACTED] asked you to describe your activities in detail. Your response dated [REDACTED] stated:

"It is planned to interface with low income people who have debt problems, provide debt counseling, make contact with their creditors and negotiate the terms of their debt".

Our letter dated [REDACTED] asked you to please list and describe each of your activities in detail and to provide a breakdown of time spent on each. We also told you that the total time for each activity should add up to 100 percent. You provided the following in your response dated [REDACTED]

i) The process of Consumer Debt Counseling - ( ) Interviewing consumers/clients that have debt concerns. Look specifically at their particular situation, impress upon them that these things can be corrected by presenting Debt Consolidation as a vehicle for the solution of their debt problems. Setup a personal budget payment plan which fall into their particular financial situation. Negotiate with their creditors, revisit the payment plan schedule, make amendments if required and present to clients for final acceptance. Monitor client's progress and provide support as required. Make sure that the client is on the right track with their personal financing (follow up) so that they do not fall into a debt problem again.

ii) Credit Negotiations. - ( ) Communication with creditors to reduce, if possible, the amount owing by the client. Determine a payment schedule on the negotiated balance due that is acceptable by all parties. Impress upon the creditor not to contact the client and that providing the client is fulfilling the terms of the payment schedule that he report the consumer/client's account as in "good standing". This being a favorable state to leave the client's financial state in.

iii) Corporation visibility. - ( ) Initially the clients will be referred to the Corporation by word of mouth and hand out sheets. Later it is planned to contact various broadcast and publication media organizations with the view to provide public service announcements about the Corporation's consumer debt operations.

iv) Personnel Training. - ( ) In house Debt Consolidation Counselor training will be provided to debt counselors. Although most training will be effected by a trainee accompanying a counselor interview with a client at the office or at a client's location.

(v) Corporation Management. ( ) Management of the normal running of the corporation, not associated with Debt Consolidation function.

We wrote you again on [redacted] and asked you to submit a detailed narrative description of your activities--past, present and planned. We asked you to list each activity separately in the order of importance based on the relative time and other resources devoted to the activity and to indicate the percentage of time for each activity. We told you that, as a minimum, your description should include answers to the following basic questions. a) What does the activity entail? b) Who conducts the activity? What are the qualifications of those conducting the activity, especially credit counseling? c) Where and when is the activity conducted? Who owns the facility where you will conduct your activities? Provide a copy of any rental or lease agreement you have. d) How significant is the activity in relation to your total activities? e) How does the



[REDACTED]

activity further your exempt purpose? Your reply dated [REDACTED] provided the following:

"My activities in the past have been in the field of electronic engineering. I'm still in this area, on a part time consulting basis only. My planned activity in this matter is to provide credit counseling. a) Credit counseling. b) [REDACTED] will be conducting the activity, and has experience in finance in the past with investments and credit counseling. c) A location has not been assigned yet, this will be decided when Exemption has been approved. d) No relation. e) No activity."

We wrote you again on [REDACTED]. We told you that the previous response did not fully address the question. We also included a citation from Revenue Procedure 90-27. In your response dated [REDACTED], you stated "since the corporation has not provided any function to date there are no past or present activities. It is planned however to provide consumer credit counseling".

In our letter dated [REDACTED] we stated that since you had not provided any function to date and had not had any past or current activities, you should provide information for your future activities. We submitted the same questions as we previously did on [REDACTED] and [REDACTED]. In your reply dated [REDACTED] you stated:

"a) I listed the organization's activities planned in detail in the response I sent to Lisa last year on [REDACTED]. My 1023 exemption files were forwarded on to you. b) The activity will be conducted by [REDACTED] who has had experience in the financial insurance and investment business. c) As I have previously stated, there is no activity at this time. d) There is no activity at this time. e) There is no activity at this time."

Considering all of our attempts to secure detailed information concerning the conduct of your activities, you failed to fully address the questions we asked. You did not tell us when or where your activities would be conducted. You did not tell us who owns the facility where you plan to conduct your activities. You did not explain the significance of the activities you plan to conduct in relation to your total activities nor did you explain how the activity furthers your exempt purpose. In your responses dated [REDACTED] and [REDACTED] you stated that you have no plans to provide educational services to the general public. Also in your letter dated [REDACTED], your response to many of our questions was "this will be decided when Exemption has been approved" and "this will be considered when the corporation obtains the Exemption". For example, we asked how do you plan to conduct your credit counseling activity and to explain a typical counseling session. We also asked to whom would you provide your services and to tell us the specific services you will

provide your clients. Your reply was "This will be considered when the corporation obtains the Exemption".

## 2. Governing Body

Your Articles of Incorporation indicated that the initial Board of Directors of the Corporation shall be five in number and the five includes [REDACTED] and [REDACTED]. Your exemption application did not list any members of your governing body.

Our [REDACTED] letter asked you to submit a list of your current officers and directors. You provided that list in your [REDACTED] response and it included [REDACTED] (President); [REDACTED] (Secretary), [REDACTED] (Treasurer), and [REDACTED] (Director).

We requested a copy of your By-laws and received them with your [REDACTED] response. This version of your By-laws listed three current officers: [REDACTED] and [REDACTED].

Our [REDACTED] letter asked you to adopt a Conflict of Interest policy because Article Four of your By-laws stated that "the presence of not less than two members shall constitute a quorum and shall be necessary to conduct the business of this organization. . .". You sent us a revised copy of your By-laws that changed Article Four to read "four members" instead of "two", as was previously the case. However, the revised copy of your By-laws only listed two officers: [REDACTED] and [REDACTED].

It appears that you do not have a governing body that is representative of the community you intend to serve.

## 3. Compensation

In your exemption application you indicated that annual compensation of the organization's governing body is "TBD when company is self sufficient. The House of Representatives National Pay Scale average will be used".

In our letter dated [REDACTED], we asked you for information concerning paid staff. You responded on [REDACTED] that there will be no payments or salaries paid to staff.

Our [REDACTED] letter asked you about the House of Representatives pay scale and to send us a copy of the publication so that we could better understand your plan for compensation. Your [REDACTED] response stated "This will be considered when the corporation obtains the Exemption."



[REDACTED]

We wrote to you again on [REDACTED] and asked you once again about your plans for compensation. In your response of [REDACTED] you stated "The compensation issue has not been considered at this time".

In our letter of [REDACTED] we told you that your exemption application indicated a plan for compensating your officers and that when we asked you for information about this plan your reply was "the compensation issue has not been considered at this time". We asked you to explain this discrepancy. We also asked when do you plan to consider the compensation issue. You told us in your [REDACTED] response that "There will be no compensation to any officers. There is no plan in existence for compensation to officers".

#### 4. Related Entities

Your application package contained two letters from entities pledging support to you. The letters, from [REDACTED] and [REDACTED], indicated that they were willing to donate equipment, finances and/or supplies to you. However, as indicated in the letters, the donations would not be made until you obtained federal tax exemption.

In our letter dated [REDACTED], we asked you to describe the relationship between you and [REDACTED]. In your reply of [REDACTED] you stated that "the relationship of [REDACTED] which is a profit Corporation is to work in conjunction with [REDACTED]. This profit Corporation will provide donations to the Non Profit Corporation, especially during the initial stages of the Non Profit Corporation".

Our letter dated [REDACTED] asked you to describe the relationship between [REDACTED] and your organization in greater detail indicating common officers or board members as well as any contracts or agreements the two organizations have entered into. You indicated in your reply of [REDACTED] that "there are no contractual relationships or agreements between the two organizations. [REDACTED] has agreed to financially donate to the organization to help during the startup process".

We wrote to you again on [REDACTED] and asked you to provide an explanation of the relationship (either direct or indirect) you have with any other organizations, either for-profit or non-profit. For each entity that is related to you, we also asked you to indicate who owns, manages and directs that entity. This includes any organization that has pledged support to you. Please include a detailed explanation of the controls your organization has in place to regulate related-party transactions. Your [REDACTED] reply to this question was

[REDACTED]

"No Relationships". In our letter of [REDACTED] we provided the following: ---

"You previously indicated that you have no relationships with any other organizations. However, [REDACTED] is president of [REDACTED]. Please explain this apparent discrepancy and provide an explanation of the relationship (either direct or indirect) you have with any other organizations, either for-profit or non-profit. For each entity that is related to you, indicate who owns, manages and directs that entity. This includes any organization that has pledged support to you. Please include a detailed explanation of the controls your organization has in place to regulate related-party transactions."

You replied on [REDACTED] stating "[REDACTED] is primarily an [REDACTED]. I didn't see the significance of this with regard to the my application for 1023 exemption". You further stated "I do not understand what you mean by "For each entity this is related to you". "

In our letter of [REDACTED] we explained what is meant by related entities. We told you that related entities are those that may share common owners, officers, and/or directors. We also asked you to provide the same information as we had previously requested. In your response dated [REDACTED], you stated "This organization is applying for Debt Consolidation, the profit organization that [REDACTED] is associated with is electronics. This was stated on the previous response Item 10".

As demonstrated above, you have not fully addressed the nature of the relationships you have with other organizations. When officers of a non-profit organization are involved with other organizations, especially ones that they own, manage and/or control and regardless of the nature of the activities conducted, the opportunity exists for private, rather than public interests, to be served. Because you failed to fully disclose information concerning your relationship with other organizations, we are unable to conclude that you will serve public interests.

5. Two Applications

We discovered that you filed two applications to conduct the same activities. In our letter dated [REDACTED] we asked you to explain, in detail, why you filed two applications [REDACTED] and [REDACTED] to conduct the same activities. You listed [REDACTED] and [REDACTED] as the president and secretary, respectively, of both organizations. You replied on [REDACTED] that "I thought my application had got lost, it took a long time before I got an



[REDACTED]

answer or heard anything".

We wrote you again on [REDACTED] and asked you the same question. We also told you that your previous reply did not fully address this item. In your [REDACTED] reply, you stated "I filed an application for [REDACTED] and did not hear anything for a long time so I applied for another Non Profit Corporation ([REDACTED]) and filed another application."

In our [REDACTED] letter we provided the following:

"We asked you why you filed two applications to conduct the same activities. You replied "I filed an application for [REDACTED] and did not hear anything for a long time so I applied for another Non Profit Corporation ([REDACTED]) and filed another application". The information contained in files of both organizations does not support your reply. You mailed your application for [REDACTED] on [REDACTED] and the [REDACTED] Service Center received it on [REDACTED]. Your Articles of Incorporation for [REDACTED] were signed by a Notary Public and the Resident Agent for [REDACTED] on [REDACTED] which is less than two weeks after your application for Stildon was received by the Service Center. It appears that your intent was to operate two organizations that conducted the same activities. Please explain, in detail, why you filed two applications [REDACTED] and [REDACTED] to conduct the same activities. [REDACTED] and [REDACTED] are the president and secretary, respectively, of both organizations."

Your reply of [REDACTED] indicated "I must have got them reversed, it was that I filed [REDACTED] because I hadn't heard anything about [REDACTED]. We had been having problems with filing [REDACTED] initially it had been sent for filing [REDACTED]. We had constantly been requesting the status of the filing by Email and Fax. Finally we were told [REDACTED] had been filed. We were not sure if there maybe was still a problem with the filing either now or later so we decided to file another Non Profit Corporation just in case there was. If this is a problem should I cancel my application for exemption for [REDACTED]"

There are apparent discrepancies in your explanation and the information that is contained in your application. You indicated the application (for [REDACTED]) had initially been sent for filing [REDACTED]. However, [REDACTED] Corporate Secretary, signed page 1 of your application (Form 1023) on [REDACTED]. Also the file contains a letter dated [REDACTED] and signed by [REDACTED] President, stating "The package [REDACTED]'s application] was sent [REDACTED] and was received by you [REDACTED] ([REDACTED])."

We informed the Taxpayer Advocate Service of our proposed refusal to rule on [REDACTED] on [REDACTED].

We wish to call your attention to section 5.02 of Revenue Procedure 90-27, Cumulative Bulletin 1990-1, page 514, which reads in part, as follows:

"Exempt status will be recognized in advance of operations if proposed operations can be described in sufficient detail to permit a conclusion that the organization will clearly meet the particular requirements of the section under which exemption is claimed. A mere restatement of purposes or a statement that proposed activities will be in furtherance of such purposes will not satisfy this requirement. The organization must fully describe the activities in which it expects to engage, including the standards, criteria, procedures or other means adopted or planned for carrying out the activities, the anticipated sources of receipts, and the nature of contemplated expenditures. Where the organization cannot demonstrate to the satisfaction of the Service that its proposed activities will be exempt, a record of actual operations may be required before a ruling or determination letter will be issued. In those cases where an organization is unable to describe fully its purposes and activities, a refusal to issue a ruling or determination letter will be considered an initial adverse determination from which administrative appeal or protest rights will be afforded."

Section 501(c)(3) of the Code provides, in part, for the exemption from Federal income tax:

Organizations organized and operated exclusively for charitable, religious or educational purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.

Section 1.501(c)(3)-1(a)(1) of the Regulations states:

"In order to qualify under section 501(c)(3) of the Code, an organization must be both organized and operated exclusively for one or more exempt purposes. If an organization fails to meet either the organizational or operational test, it is not exempt."

Section 1.501(c)(3)-1(c)(1) of the Regulations states that an organization will be regarded as "operated exclusively" for one or more exempt purposes only if it engages primarily in activities which accomplish one or more of such exempt purposes specified in section 501(c)(3) of the Code. An organization will not be so regarded if more than an insubstantial part of its activities is not in furtherance of an exempt purpose.

Section 1.501(c)(3)-1(d)(1)(ii) of the Regulations states that an organization is not operated exclusively for one or more exempt purposes unless it serves a public rather than a private interest. It must not be



operated for the benefit of designated individuals or the persons who created it.

Based upon the information submitted, you have not clearly established that you will operate exclusively for one or more purposes within the meaning of Internal Revenue Code Section 501(c)(3). Accordingly, it is suggested that you operate for a year. After this period, if you still wish to obtain exempt status, you must submit a financial statement and a detailed description of activities you have conducted during the year. The material that you have already submitted will be retained in our file for use at that time.

If at the end of this period you qualify for a favorable determination based upon continuous compliance with section 501(c)(3), exempt status and deductibility of contributions will be retroactive. However, it will be necessary to file an annual income tax return, Form 1120, until such time as you are able to demonstrate your compliance with section 501(c)(3). Also, you should inform your donors that the deductibility of their contributions cannot be assured until you have obtained a favorable determination letter.

You have the right to protest this proposed determination if you believe it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues." The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If you do not protest this proposed determination in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Internal Revenue Code provides, in part, that:

A declaratory judgment or decree under this section shall not be issued in any proceeding unless the Tax Court, the Claims Court, or the district court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

[REDACTED]

If you are in agreement with our proposed refusal to rule, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

If we do not hear from you within the time specified, this will become our final determination. In that event, appropriate State officials will be notified of this action in accordance with the provisions of section 6104(c) of the Code.

Sincerely yours,

*Steven T. Miller*

Steven T. Miller  
Director, Exempt Organizations

Enclosures:  
Publication 890  
Form 6018



Internal Revenue Service  
General Appeals

Department of the Treasury

Date: JUL 25 2002

Employer Identification Number:  
[REDACTED]

Tax Years ended: [REDACTED]

Area Manager: [REDACTED]

Person to Contact: [REDACTED]

Contact Telephone Number:  
[REDACTED]

Contact Person ID#: [REDACTED]

[REDACTED]

This is a final adverse determination as to your exempt status under section 501(a) of the Internal Revenue Code as an organization described under in section 501(c)(3).

Our adverse determination was made for the following reason(s):

You did not describe your proposed activities in sufficient detail on your Form 1023. Accordingly, you have not established that you were organized and operated for one or more specified purposes under Code § 501(c)(3). In order to be exempt under Code § 501(c)(3), an organization must be both organized and operated exclusively for one or more specified purposes.

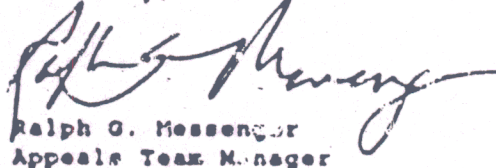
Contributions to your organization are not deductible under Code § 170.

If you decide to contest this determination under the declaratory judgment provisions of Code § 7428, a petition to the United States Tax Court, the United States Court of Claims, or the district court of the United States for the District of Columbia must be filed within 90 days from the date this determination was mailed to you. Contact the clerk of the appropriate court for rules for filing petitions for declaratory judgment.

We will notify the appropriate State officials of this action, as required under Code § 6104(c).

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

  
Ralph G. Messenger  
Appeals Team Manager

Los Angeles Appeals Office  
300 N. Los Angeles Street, Room 3054  
Los Angeles, CA 90012

Letter 1371(RO)(1-80)